

**HANCOCK COUNTY HEALTH SYSTEM**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2013 AND 2012**

**HANCOCK COUNTY HEALTH SYSTEM  
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**HANCOCK COUNTY HEALTH SYSTEM  
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b><u>Board of Trustees</u></b>		
Mary Kopacek	Chairperson	December 31, 2016
Rob Willms	Vice-Chairperson/Treasurer	December 31, 2016
Bill Paulus	Secretary	December 31, 2018
Dorothy Denny	Member	December 31, 2014
DeAnna Kelly	Member	December 31, 2014
Ron Eden	Member	December 31, 2016
Ellen Tusha	Member	December 31, 2018

\* \* \* \* \*

<b><u>Health System Officials</u></b>		
Vance Jackson	Administrator	
Laura Zwiefel	Chief Nursing Officer/Clinical Services	
Julie Damm	Chief Financial Officer	

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Hancock County Health System  
Britt, Iowa

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Hancock County Health System, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Hancock County Health System as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 19, the Governmental Accounting Standards Board (GASB) Statement Number 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred inflows and outflows of resources. The effect of adopting the new accounting standard resulted in a prior period adjustment to the financial statements ended June 30, 2012.

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 8 and Budgetary Comparison information on pages 31 - 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Hancock County Health System as a whole. The supplementary information on pages 33 through 40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

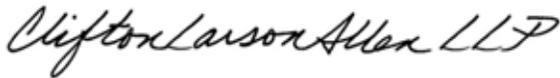
Board of Trustees  
Hancock County Health System

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Trustees and Administration listing which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2013 on our consideration of Hancock County Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Hancock County Health System's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
November 11, 2013

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**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

This discussion and analysis of the financial performance of Hancock County Health System provides an overall review of the Health System's financial activities and balances as of and for the years ended June 30, 2013, 2012, and 2011. The intent of this discussion is to provide further information on the Health System's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health System's financial statements, including the notes thereto, to enhance their understanding of the Health System's financial status.

**Overview of the Financial Statements**

The financial statements are composed of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health System's finances.

The Health System's financial statements offer short and long-term information about its activities. The statements of net position include all of the Health System's assets and liabilities, as well as the Hancock County Health System Foundation's net position, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health System creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health System's operations over the past year and can be used to determine whether the Health System has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Highlights**

The Statements of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Health System and Foundation and the changes in them. The Health System's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health System's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Statement of Net Position at June 30, 2013, indicates total assets of \$31,411,017, total liabilities of \$15,879,997, and net position of \$15,531,020.
- The Statements of Revenues, Expenses and Changes in Net Position indicates total net patient service revenue of \$15,563,905, an increase of 13.5% over the previous fiscal year, total operating expenses of \$16,818,979, an increase of 17.8%, resulting in a loss from operations of \$752,725. Net non-operating revenues of \$1,168,427 bring the excess of revenues over expenses to \$415,702, a 60.5% decrease from the prior year.

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Financial Highlights (Continued)**

- The Health System's current assets exceeded its current liabilities by \$5,346,279 at June 30, 2013, providing a 2.7 current ratio.
- The Health System recorded an excess of revenues over expenses for fiscal year ending June 30, 2013, amounting to \$415,702.
- Gross outpatient charges increased 13.0% during fiscal year 2013.
- Total patient days for the year ended June 30, 2013 amount to:
  - 918 -Acute Care (includes Hospice) (9.9% decrease from the prior year)
  - 1,661 - Swing-bed & Swing-bed Self Pay (26% decrease from the prior year)
  - 18,309 - Outpatient Visits (1.2% increase from the prior year)
  - 20,967 - Physician Clinic Visits (6.6% decrease from the prior year)

**Organization Highlights**

The organization continued to make many positive changes over this last fiscal year, including:

- Completed \$12.6 million Private Room/OP Expansion project, using Recovery Zone Economic Development Bonds
- Started providing Public Health and Home Health Services.
- Received Gold Performance Achievement Award – Get With The Guidelines®–Heart Failure from the American Heart Association
- Recertified NICHE Status (Nurses Improving Care for Healthsystem Elders)
- Held Foundation Golf tournament
- Served as Network Project Lead for final 3<sup>rd</sup> year of HRSA Pre-Diabetes Network Grant.
- The organization's name changed to Hancock County Health System as of July 1, 2012.
- Began offering screening endoscopies at Garner Medical Clinic.
- Hired one full time Health Coach

**Condensed Financial Statements**

**Table 1: Statements of Net Position**

	2013	2012 As Restated	2011 As Restated
<b>Assets:</b>			
Current Assets	\$ 8,493,234	\$ 8,645,268	\$ 7,715,752
Noncurrent Cash and Investments	3,887,548	6,212,031	13,878,177
Capital Assets, Net	18,655,424	17,302,573	9,488,056
Other Assets	374,811	330,004	330,941
<b>Total Assets</b>	<b>\$ 31,411,017</b>	<b>\$ 32,489,876</b>	<b>\$ 31,412,926</b>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,978,819	\$ 2,984,054	\$ 2,796,910
Long-Term Debt (Less Current Maturities)	12,733,042	13,366,963	13,968,499
Deferred Inflows of Resources	1,168,136	1,059,820	1,025,199
<b>Total Liabilities</b>	<b>15,879,997</b>	<b>17,410,837</b>	<b>17,790,608</b>
<b>Net Position:</b>			
Invested in Capital Assets Net of Related Debt	5,288,460	2,467,739	4,081,500
<b>Restricted:</b>			
Under Bond Agreement	1,356,473	3,150,246	1,693,290
Plant Replacement and Expansion Funds	18,669	18,719	37,664
Unrestricted	8,867,418	9,442,335	7,809,864
<b>Total Net Position</b>	<b>15,531,020</b>	<b>15,079,039</b>	<b>13,622,318</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 31,411,017</b>	<b>\$ 32,489,876</b>	<b>\$ 31,412,926</b>

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Condensed Financial Statements (Continued)**

**Table 2: Statement of Revenues, Expenses and Changes in Net Position**

	2013	2012 As Restated	2011 As Restated
Net Patient Service Revenue	\$ 15,563,905	\$ 13,714,955	\$ 13,215,605
Other Operating Revenue	502,349	793,465	214,753
Total Revenue	<u>16,066,254</u>	<u>14,508,420</u>	<u>13,430,358</u>
Operating Expenses			
Salaries and Wages	6,099,329	5,540,889	4,812,774
Employee Benefits	1,588,898	1,345,282	1,188,027
Utilities	7,189,130	6,306,812	6,435,267
Depreciation	1,616,097	1,018,395	980,302
Interest and Amortization	325,525	62,324	79,041
Total Operating Expenses	<u>16,818,979</u>	<u>14,273,702</u>	<u>13,495,411</u>
Operating Income	(752,725)	234,718	(65,053)
Non-Operating Revenues (Expenses)			
Tax Apportionments	1,061,795	1,026,879	966,380
Interest Income	33,452	46,041	51,338
Rental Income	46,604	57,155	49,642
Contributions	54,563	28,252	51,318
Gain (Loss) on Sale of Property and Equipment	(27,987)	1,445	(2,704)
Miscellaneous Income (Expense)	-	8,923	21,093
Non-Operating Revenues (Expenses)	<u>1,168,427</u>	<u>1,168,695</u>	<u>1,137,067</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	415,702	1,403,413	1,072,014
Capital Grants and Contributions	<u>36,279</u>	<u>53,308</u>	<u>91,298</u>
Increase in Net Position	451,981	1,456,721	1,163,312
Net Position, Beginning of Year	<u>15,079,039</u>	<u>13,622,318</u>	<u>12,459,006</u>
Net Position, End of Year	<u>\$ 15,531,020</u>	<u>\$ 15,079,039</u>	<u>\$ 13,622,318</u>

**Capital Assets**

During the fiscal year, Hancock County Health System (HCHS) completed a \$12.6 million renovation. The Project consisted of acquisition, construction, equipping and furnishing of a new 31,075 square foot, three-story addition to the current hospital. The first floor of the addition includes new physical therapy, cardiac rehab and administrative areas. The second floor of the addition includes a new inpatient unit. The third floor is being shelled for future expansion potential. Renovation and remodeling of administrative areas and the existing inpatient unit will be completed. The Project provides HCHS with all private inpatient rooms. The HCHS Garner Clinic location has also been remodeled as part of the project.

Current construction in progress costs consist of hardware and software costs resulting from the Merger and Healthland upgrade.

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**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013 AND 2012**

**Long-Term Debt**

Hancock County Health System had \$633,922 and \$12,733,042 in short-term and long-term debt, respectively, for the year ended June 30, 2013, and \$697,755 and \$13,366,963 in short-term and long-term debt, respectively, for the year ended June 30, 2012. The debt was incurred to renovate the 1st floor in 1997, the GMC clinic in 2000, the 2nd floor in 2003, the Digital Mammography unit in 2010, and the recently completed building and remodeling project.

**Economic and Other Factors and Next Year's Budget**

The Health System's Board and management considered many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Swing Bed Initiative with Mercy Medical Center – North Iowa
- Increase in Bad Debt and Patient Financial Assistance due to uninsured and underinsured patients
- Salary and benefit costs
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments
- Healthland Centrig Financial Software migration
- Clinic Electronic Health Record

**Summary**

The Health System's Board of Trustees and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 184 employees provides to every person they serve. We would also like to thank each member of the Health System's Medical Staff for their dedication and support provided.

**Contacting the Health System's Finance Department**

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Hancock County Health System  
Attn: CEO  
532 1st ST NW  
Britt, IA 50423

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

	2013	2012 As Restated
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,423,318	\$ 5,616,632
Current Portion of Noncurrent Cash and Investments	-	32,500
Patient Receivables, Less Allowance for Uncollectible Accounts of \$424,625 in 2013 and \$358,245 in 2012	1,884,677	1,529,215
Other Receivables	100,523	55,669
Notes Receivable	102,284	103,266
Estimated Third-Party Payor Settlements	482,903	-
Tax Receivable, Succeeding Year Property Tax	1,168,136	1,059,820
Inventories	237,188	149,083
Prepaid Expenses	94,205	99,083
Total Current Assets	8,493,234	8,645,268
 <b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Improvements	1,870,708	2,505,644
Restricted Under Bond Agreement	1,356,473	3,150,246
Restricted Foundation Fund	641,698	569,972
Restricted Plant Replacement and Expansion Funds	18,669	18,669
Restricted for Current Liabilities	-	(32,500)
Net Assets Whose Use is Limited	3,887,548	6,212,031
 <b>CAPITAL ASSETS, NET</b>		
	18,655,424	17,302,573
 <b>OTHER ASSETS</b>		
Real Estate Held for Investment	281,284	281,284
Physician Recruitment Fees, Net	93,527	48,720
	374,811	330,004
Total Assets	\$ 31,411,017	\$ 32,489,876

See accompanying Notes to Financial Statements.

	2013	2012 As Restated
	<u>2013</u>	<u>As Restated</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 633,922	\$ 697,755
Accounts Payable:		
Trade	285,308	302,033
Construction	-	770,116
Due To Affiliated Organization	328,732	173,519
Accrued Expenses:		
Salaries, Wages and Vacation	534,089	523,549
Interest	78,033	78,351
Payroll Taxes and Other	118,735	102,395
Estimated Third-Party Payor Settlements	-	336,336
Total Current Liabilities	<u>1,978,819</u>	<u>2,984,054</u>
<b>LONG-TERM DEBT, Less Current Maturities</b>	<u>12,733,042</u>	<u>13,366,963</u>
Total Liabilities	14,711,861	16,351,017
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Succeeding Year Property Tax Receivable	1,168,136	1,059,820
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	5,288,460	2,467,739
Restricted:		
Expendable Under Bond Agreement	1,356,473	3,150,246
Expendable Plant Replacement and Expansion Funds	18,669	18,719
Unrestricted	<u>8,867,418</u>	<u>9,442,335</u>
Total Net Position	<u>15,531,020</u>	<u>15,079,039</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 31,411,017</u>	<u>\$ 32,489,876</u>

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012 As Restated
<b>OPERATING REVENUES</b>		
Net Patient Service Revenues (Net of Provision for Bad Debts of \$1,107,137 in 2013 and \$1,086,250 in 2012)	\$ 15,563,905	\$ 13,714,955
Other Revenue	502,349	793,465
Total Revenues	16,066,254	14,508,420
<b>EXPENSES</b>		
Salaries and Wages	6,099,329	5,540,889
Employee Benefits	1,588,898	1,345,282
Supplies and Other	7,189,130	6,306,812
Depreciation	1,616,097	1,018,395
Interest and Amortization	325,525	62,324
Total Expenses	16,818,979	14,273,702
<b>OPERATING INCOME (LOSS)</b>	(752,725)	234,718
<b>NONOPERATING GAINS (LOSSES)</b>		
County Tax Revenue	1,061,795	1,026,879
Investment Income	33,452	46,041
Rental Income	46,604	57,155
Contribution Revenue, Net of Fundraising Expenses	54,563	28,252
Gain (Loss) on Disposal of Capital Assets	(27,987)	1,445
Miscellaneous Income	-	8,923
Non-Operating Gains, Net	1,168,427	1,168,695
<b>EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	415,702	1,403,413
Capital Grants and Contributions	36,279	53,308
<b>INCREASE IN NET POSITION</b>	451,981	1,456,721
Net Position, Beginning of Year As Previously Stated	15,079,039	13,934,272
Prior Period Adjustment	-	(311,954)
Net Position, Beginning of Year As Restated	15,079,039	13,622,318
<b>NET POSITION, END OF YEAR</b>	\$ 15,531,020	\$ 15,079,039

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012 As Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of Patient Service Revenue	\$ 14,389,204	\$ 13,885,381
Payments of Salaries and Wages	(7,441,423)	(6,453,800)
Payments of Supplies and Other Expenses	(7,290,602)	(6,599,495)
Other Receipts and Payments, Net	350,161	735,941
Net Cash Provided by Operating Activities	7,340	1,568,027
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Non-Capital Contributions Received, Net of Related Fundraising	54,563	28,252
County Tax Revenue Received	1,061,795	1,026,879
Other Income (Expense)	-	8,923
Rental Income	46,604	57,155
Net Cash Provided by Non-Capital Financing Activities	1,162,962	1,121,209
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,131,638)	(7,508,321)
Principal Payments on Long-Term Debt	(697,754)	(425,507)
Interest Payments on Long-Term Debt	(960,938)	(968,160)
Capital Contributions and Grants	36,279	53,308
Net Cash Used by Capital and Related Financing Activities	(4,754,051)	(8,848,680)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase (Decrease) in Noncurrent Cash and Investments	2,356,983	7,663,646
Interest Earned on Investments	33,452	46,041
Net Cash Provided by Investing Activities	2,390,435	7,709,687
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,193,314)	1,550,243
Cash and Cash Equivalents - Beginning	5,616,632	4,066,389
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 4,423,318	\$ 5,616,632

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012 As Restated
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (752,725)	\$ 234,718
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,616,097	1,018,395
Amortization	60,704	20,697
Interest Expense Considered Capital and Related Financing Activity	264,821	41,627
Provision for Bad Debts	1,107,137	1,086,250
Changes in Assets and Liabilities:		
Patient Receivables	(1,462,599)	(415,160)
Other Receivables	(152,188)	(57,524)
Inventories	(88,105)	(3,644)
Prepaid Expenses	4,878	13,305
Other Assets	(44,807)	937
Accounts Payable - Trade and Related Party	138,488	38,850
Accrued Expenses	26,562	55,619
Deferred Revenue	108,316	34,621
Estimated Third-Party Payor Settlements	(819,239)	(500,664)
	<u>\$ 7,340</u>	<u>\$ 1,568,027</u>
Net Cash Provided by Operating Activities	<u>\$ 7,340</u>	<u>\$ 1,568,027</u>

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Hancock County Health System (Health System) is the county hospital of Hancock County, located in the City of Britt, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health System provides health care services under the name of Hancock County Health System in accordance with a Master Affiliation Agreement – see Note 12. Services are provided primarily to residents of Hancock County and the surrounding counties in north central Iowa.

**Tax Exempt Status**

Hancock County Health System Foundation is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Health System believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Health System would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Reporting Entity**

For financial reporting purposes, Hancock County Health System has included all funds, organizations, agencies, boards, commissions, and authorities. The Health System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health System are such that exclusion would cause the Health System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Health System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health System. Hancock County Health System Foundation meets these criteria and is included in the Health System's financial statements. Hancock County Health System has no other component units which meet the GASB criteria.

**Basis of Presentation**

The statements of net position display the Health System's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

*Restricted Net Position*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health System.

*Expendable* – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net position are available for use, generally it is the Health System's policy to use restricted net position first.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Health System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, excluding assets limited as to use or restricted and investments.

**Patient Receivables**

Patient receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed. Accounts past due more than 85 days are turned over to collection agents.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Patient Receivables (Continued)**

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care (patient financial assistance) is appropriate. At June 30, 2013 and 2012, the allowance for uncollectible accounts was approximately \$424,600 and \$358,200, respectively.

**Property Tax Receivable**

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**Notes Receivable**

Notes receivable represent uncollateralized amounts due from employees and a contracted professional under the Health System's educational assistance program. Interest is not charged on amounts owed unless employment commitments are not satisfied. Amounts are forgiven by the Health System over time as employment commitments are satisfied. If employment commitments are not satisfied, amounts will be due to the Health System immediately.

**Inventory**

Inventory is valued at cost using the first-in, first-out method.

**Investments**

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Health System's operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 Years
Buildings and improvements	10-50 Years
Equipment	3-20 Years

**Noncurrent Cash and Investments**

Noncurrent cash and investments include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and assets which are restricted by bond agreements. Noncurrent cash and investments that are available for obligations classified as current liabilities are reported in current assets.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health System for its stated purposes. Resources set aside for board designated purposes are not considered to be restricted. Contributions are reported in nonoperating revenue. Grants restricted for specific operating purposes are reported as other operating revenues.

**Compensated Absences**

Health System employees accumulate a limited amount of earned but unused paid time-off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time-off payouts is recorded as a current liability on the statement of net position, based on pay rates that are in effect at June 30, 2013 and 2012.

**Deferred Inflows of Resources**

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consists of succeeding year property tax receivable.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses**

The Health System's statement of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health System's principal activity. Nonexchange revenues, including interest income, taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**Net Patient and Resident Service Revenue**

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Contributions and Grants**

Revenues from contributions and grants (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Health System incurred \$76,987 and \$58,910 for advertising costs for the years ended June 30, 2013 and 2012, respectively.

**Charity Care**

To fulfill its mission of community service, the Health System provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Health System does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Electronic Health Record Incentive Payments**

The Health System received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health System will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

**Investment Income**

Interest on cash and deposits is included in non-operating revenues and expenses.

**County Tax Revenue**

Taxes are included in non-operating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

**Subsequent Events**

The Health System has evaluated subsequent events through November 11, 2013, the date which the financial statements were available to be issued.

**NOTE 2 DESIGNATED POSITION**

Of the \$8,867,418 and \$9,442,335 of unrestricted net position at June 30, 2013 and 2012, respectively, the board of trustees has designated \$1,870,708 and \$2,505,644, respectively, for the acquisition of capital assets. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

**NOTE 3 CHARITY CARE AND COMMUNITY BENEFITS**

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$141,451 and \$108,581 for the years ended June 30, 2013 and 2012, respectively. The estimated costs of the charges foregone, based upon the Health System's overall cost-to-charge ratio calculation, for the years ended June 30, 2013 and 2012, were approximately \$87,400 and \$96,300, respectively.

In addition, the Health System provides services to other medically indigent patients under certain government reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Health System also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 4 NET PATIENT SERVICE REVENUE**

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** The Health System is licensed as a Critical Access Hospital (CAH). The Health System is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health System and are subject to audits thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2012.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2010.

**Other Payors:** The Health System has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health System under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 57% and 5%, respectively, of the Health System's net patient service revenue for the year ended June 30, 2013, and 55% and 5%, respectively, of the Health System's net patient service revenue for the year ended June 30, 2012. The net patient service revenue decreased approximately \$50,000 for the year ended June 30, 2013 and increased approximately \$9,300 for the year ended 2012, due to prior year retroactive adjustments in excess of amounts previously estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health System may incur a liability for a claims overpayment at a future date. The Health System is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health System's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health System and CMS.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 4 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)**

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Gross Patient and Resident Service Revenue	\$ 26,599,685	\$ 24,051,954
Revenue Adjustments:		
Medicare	(5,238,469)	(5,135,493)
Medicaid	(942,666)	(692,413)
Other	(3,747,508)	(3,422,843)
Provision for Bad Debt	(1,107,137)	(1,086,250)
Total Contractual Adjustments and Bad Debts	(11,035,780)	(10,336,999)
Net Patient and Resident Service Revenue	\$ 15,563,905	\$ 13,714,955

**NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by  $\frac{1}{4}$ ,  $\frac{1}{2}$ , and  $\frac{3}{4}$ .

The Health System demonstrated meaningful use to the 90-day period ended August 31, 2011 and received notice of the first tentative incentive payment of \$59,639 in June of 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net position. The final amount of this payment will be determined based on information from the Health Centers' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 6 PATIENT RECEIVABLES**

Patient Receivables reports as current assets by the Health System at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,396,276	\$ 1,362,068
Receivable from Medicare	748,651	497,724
Receivable from Medicaid	<u>164,375</u>	<u>27,668</u>
Total Patient Receivables	2,309,302	1,887,460
Less: Allowance for Doubtful Accounts	<u>(424,625)</u>	<u>(358,245)</u>
Patient Receivables, Net	<u><u>\$ 1,884,677</u></u>	<u><u>\$ 1,529,215</u></u>

**NOTE 7 CASH AND DEPOSITS**

The Health System's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note and are recorded at cost.

At June 30, 2013 and 2012, the Health System's carrying amounts of cash and deposits are as follows:

	<u>2013</u>	<u>2012</u>
Checking and Savings Accounts	\$ 4,787,772	\$ 5,616,632
Certificates of Deposit	1,896,919	2,692,937
Money Market Accounts	<u>1,626,175</u>	<u>3,551,594</u>
	<u><u>\$ 8,310,866</u></u>	<u><u>\$ 11,861,163</u></u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 4,423,318	\$ 5,616,632
Restricted Under Bond Agreement - Current	-	32,500
Assets Limited as to Use or Restricted	<u>3,887,548</u>	<u>6,212,031</u>
	<u><u>\$ 8,310,866</u></u>	<u><u>\$ 11,861,163</u></u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 7 CASH AND DEPOSITS (CONTINUED)**

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health System are:

The Health System attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**NOTE 8 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION**

Hancock County Health System Foundation is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held for the purpose of earning investment income for distribution to the Health System. Hancock County Health System Foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds have been invested directly by Hancock County Health System and can be withdrawn by the Foundation at any time. The funds are recorded as a beneficial interest in net assets of the Community Foundation at the fair market value of its interest in the Community Foundation and are reflected in noncurrent cash and investments as restricted foundation funds in the statements of net position. These funds amounted to \$8,306 and \$75,688 at June 30, 2013 and 2012, respectively.

**NOTE 9 CAPITAL ASSETS**

Summaries of capital assets at June 30, 2013 and 2012 are as follows:

	June 30, 2012	Additions	(Retirements)	Transfers	June 30, 2013
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	1,289,082	2,616,297	-	(3,747,529)	157,850
Total Capital Assets not being depreciated	<u>1,373,844</u>	<u>2,616,297</u>	<u>-</u>	<u>(3,747,529)</u>	<u>242,612</u>
<b>Capital Assets Being Depreciated</b>					
Land Improvements	393,889	-	(8,782)	-	385,107
Building	10,143,222	-	(34,096)	1,435,377	11,544,503
Fixed Equipment	8,482,074	8,323	(106,696)	1,624,584	10,008,285
Major Movable Equipment	6,347,110	381,015	(203,571)	687,568	7,212,122
Total Capital Assets being depreciated	<u>25,366,295</u>	<u>389,338</u>	<u>(353,145)</u>	<u>3,747,529</u>	<u>29,150,017</u>
<b>Accumulated Depreciation:</b>					
Land Improvements	353,476	10,922	(8,782)	-	355,616
Building	3,608,848	440,759	(34,112)	-	4,015,495
Fixed Equipment	1,595,922	540,866	(74,716)	-	2,062,072
Major Movable Equipment	3,879,320	623,550	(198,848)	-	4,304,022
Total Accumulated Depreciation	<u>9,437,566</u>	<u>1,616,097</u>	<u>(316,458)</u>	<u>-</u>	<u>10,737,205</u>
Total Capital Assets Being Depreciated, Net	<u>15,928,729</u>	<u>(1,226,759)</u>	<u>(36,687)</u>	<u>3,747,529</u>	<u>18,412,812</u>
Total Capital Assets, Net	<u>\$ 17,302,573</u>	<u>\$ 1,389,538</u>	<u>\$ (36,687)</u>	<u>\$ -</u>	<u>\$ 18,655,424</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9 CAPITAL ASSETS (CONTINUED)**

	June 30, 2011	Additions	(Retirements)	Transfers	June 30, 2012
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	2,453,096	8,045,872	(100)	(9,209,786)	1,289,082
Total Capital Assets not being depreciated	<u>2,537,858</u>	<u>8,045,872</u>	<u>(100)</u>	<u>(9,209,786)</u>	<u>1,373,844</u>
<b>Capital Assets Being Depreciated</b>					
Land Improvements	393,151	-	-	738	393,889
Building	6,687,808	212,977	-	3,242,437	10,143,222
Fixed Equipment	3,438,175	311,313	-	4,732,586	8,482,074
Major Movable Equipment	5,033,493	262,750	(183,158)	1,234,025	6,347,110
Total Capital Assets being depreciated	<u>15,552,627</u>	<u>787,040</u>	<u>(183,158)</u>	<u>9,209,786</u>	<u>25,366,295</u>
<b>Accumulated Depreciation:</b>					
Land Improvements	342,281	11,195	-	-	353,476
Building	3,332,214	276,634	-	-	3,608,848
Fixed Equipment	1,341,463	254,459	-	-	1,595,922
Major Movable Equipment	3,586,471	476,107	(183,258)	-	3,879,320
Total Accumulated Depreciation	<u>8,602,429</u>	<u>1,018,395</u>	<u>(183,258)</u>	<u>-</u>	<u>9,437,566</u>
Total Capital Assets Being Depreciated, Net	<u>6,950,198</u>	<u>(231,355)</u>	<u>100</u>	<u>9,209,786</u>	<u>15,928,729</u>
Total Capital Assets, Net	<u>\$ 9,488,056</u>	<u>\$ 7,814,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,302,573</u>

The majority of construction in progress at June 30, 2013, represents costs incurred for the Healthland upgrade and Merger software costs. The remaining construction costs consist of architecture and feasibility costs for additional patient rooms on the third floor.

**NOTE 10 REAL ESTATE HELD FOR INVESTMENT**

The real estate held for investment consists of 151 acres of farmland in Hancock County. The asset value of \$281,284 represents the original purchase price. At June 30, 2013 and 2012, the estimated market value was in excess of the carrying value.

**NOTE 11 LONG-TERM DEBT**

A schedule of changes in long-term debt at June 30, 2013 and 2012 is as follows:

	Balance July 1, 2012	Additions	(Payments)	Balance June 30, 2013	Amounts Due Within One Year
Hospital General Obligation County Bonds	\$ 65,000	\$ -	\$ (65,000)	\$ -	\$ -
Capital Lease Obligations	149,718	-	(52,754)	96,964	43,922
Hospital Revenue Refunding Bonds, Series 2010A	1,220,000	-	(580,000)	640,000	590,000
Hospital Revenue Bonds, Series 2010B	12,630,000	-	-	12,630,000	-
Total Long-Term Debt	<u>\$ 14,064,718</u>	<u>\$ -</u>	<u>\$ (697,754)</u>	<u>\$ 13,366,964</u>	<u>\$ 633,922</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

	July 1, July 1, 2011	Additions	(Payments)	Balance June 30, 2012	Amounts Due Within One Year
Hospital General Obligation County Bonds	\$ 125,000	\$ -	\$ (60,000)	\$ 65,000	\$ 65,000
Capital Lease Obligations	89,006	110,000	(49,288)	149,718	52,755
Hospital Revenue Refunding Bonds, Series 2010A	1,550,000	-	(330,000)	1,220,000	580,000
Hospital Revenue Bonds, Series 2010B	12,630,000	-	-	12,630,000	-
Total Long-Term Debt	<u>\$ 14,394,006</u>	<u>\$ 110,000</u>	<u>\$ (439,288)</u>	<u>\$ 14,064,718</u>	<u>\$ 697,755</u>

The Health System general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00% to 5.50%. Principal and interest payments were due through December 2012.

Health System Revenue Refunding Bonds, Series 2010A, require annual payments of principal and semi-annual payments of interest, with interest rates varying from 1.55% to 2.80%. One bond will mature each year, with maturity of the final bond in 2015. The bonds are collateralized by a pledge of the Health System's net revenues.

Health System Revenue Bonds, Series 2010B, (Recovery Zone Economic Development Bonds) require annual payments of principal and semi-annual payments of interest, with interest rates varying from 4.00% to 8.05%. One bond will mature each year, with maturity of the final bond in 2026. The bonds are collateralized by a pledge of the Health System's net revenues.

In relation to the Health System Revenue Bonds, Series 2010B, the Health System has qualified for the Build America Bonds credit. These bonds are eligible for the rebate for the entire term of the bonds. The rebate credit equals 45% of the interest paid on the bonds.

Capitalized lease obligations consist of two lease agreements. The first agreement requires monthly payments of principal and interest, with interest at the rate of 3.25%. Principal and interest payments are due through October 2016. The second agreement requires monthly payments of principal and interest, with interest at the rate of 5.45%. Principal and interest payments are due through February 2014.

The bonds are payable solely and only from revenues and receipts of the Health System and do not constitute an indebtedness of the County.

Under the terms of the revenue bonds official statement, the Health System is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use or restricted. The revenue bonds official statement also requires that the Health System satisfy certain measures of financial performance as long as the bonds are outstanding.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2014	590,000	943,235	\$ 43,922	\$ 2,596
2015	605,000	929,370	22,663	1,421
2016	620,000	905,770	23,411	673
2017	635,000	876,320	6,968	54
2018	655,000	842,348	-	-
2019-2023	3,640,000	3,559,955	-	-
2024-2029	4,025,000	2,383,120	-	-
2030	2,500,000	225,000	-	-
	<u>\$ 13,270,000</u>	<u>\$ 10,665,118</u>	<u>\$ 96,964</u>	<u>\$ 4,744</u>

A summary of interest cost, Build America Bonds Credit, and investment income on borrowed funds during the year ended June 30, 2013 is as follows:

	2013	2012
Interest Cost:		
Capitalized as Part of Construction Project	\$ 695,799	\$ 927,970
Recognized as Interest Expense	231,993	41,627
Total	<u>\$ 927,792</u>	<u>\$ 969,597</u>
Build America Bond Credit:		
Recognized as Nonoperating Revenue	399,441	593,887
Total	<u>\$ 399,441</u>	<u>\$ 593,887</u>
Investment Income:		
Capitalized as Part of Construction Project (Reduction of Cost)	\$ -	\$ 28,306

**NOTE 12 LEASES**

The Health System leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2013 and 2012 for all operating leases was \$124,587 and \$139,824, respectively. The capitalized leased assets consist of:

	2013	2012
Major Movable Equipment	\$ 257,000	\$ 257,000
Less Accumulated Amortization (Included as Depreciation on the Accompanying Financial Statements)	(167,133)	(107,282)
	<u>\$ 89,867</u>	<u>\$ 149,718</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 12 LEASES (CONTINUED)**

**Subsequent Event**

At the end of 2013 HCHS entered into a lease agreement for a CT Scanner, however, the CT Scanner was not received and placed into service until subsequent to year end. As a result, the lease payable and equipment will be recorded in the year ended June 30, 2014. Monthly payments of \$8,784 begin in 2014 and continue for 60 months.

**NOTE 13 PENSION AND RETIREMENT BENEFITS**

The Health System contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary, and the Health System is required to contribute 8.67% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by state statute. The Health System's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$478,364, \$414,576, and \$332,463, respectively, equal to the required contributions for each year.

**NOTE 14 RELATED ORGANIZATIONS**

**Master Affiliation Agreement**

The Health System entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region under the name of Hancock County Health System. As a part of the Master Affiliation Agreement, the Health System entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services and other services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,532,855 and \$2,487,137 for the years ended June 30, 2013 and 2012, respectively.

**Management Services Agreement (Continued)**

The Health System entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Health System. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health System. Expenses for the administrative and management services received for the years ended June 30, 2013 and 2012 were \$689,283 and \$660,793, respectively.

**Due to Affiliated Organization**

As of June 30, 2013 and 2012, Hancock County Health System's records reflect a due to Mercy Medical Center – North Iowa of \$328,732 and \$173,519, respectively, for the various services and distributions related to these agreements.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 15 COMMITMENTS AND CONTINGENCIES**

**Malpractice Insurance**

The Health System has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**Litigations, Claims, and Other Disputes**

The Health System is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will be resolved without material adverse effects to the Health System's financial position or results of operations.

**Health Care Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

**NOTE 16 DEFERRED COMPENSATION AGREEMENTS**

The Health System has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specific dates. The Health System does not make any contributions under the agreements. The agreements indicate the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provision of the Internal Revenue Code Section 457 was amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Health System. Under Governmental Accounting Standards plan assets are held in a trust for plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$675,870 and \$548,077 at June 30, 2013 and 2012, respectively.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 17 RISK MANAGEMENT**

Hancock County Health System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 18 CONCENTRATION OF CREDIT RISK**

The Health System grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2013 and 2012 was as follows:

	2013	2012
Medicare	41%	33%
Medicaid	8%	2%
Commercial Insurance and Other Third-Party Payors	26%	38%
Self-Pay	25%	27%
	100%	100%

**NOTE 19 PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2013, Hancock county Health System adopted Governmental Auditing Standards Board (GASB) 65 *Items Previously Reported as Assets and Liabilities*, which resulted in the removal of bond issue costs at June 30, 2013 and 2012. This resulted in an overstatement of assets for the year ended June 30, 2012 as previously stated. As a result, a prior period adjustment was required to correctly state the Health Systems net position as reflected below:

	As Previously Stated	Prior Period Adjustments	As Restated
Interest and Amortization	\$ 110,504	\$ (48,180)	\$ 62,324
Bond Issue Costs	\$ 263,774	\$ (263,774)	\$ -
Net Position	\$ 15,342,813	\$ (263,774)	\$ 15,079,039
Change in Net Position	\$ 1,408,541	\$ 48,180	\$ 1,456,721

**REQUIRED SUPPLEMENTARY INFORMATION**

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**HANCOCK COUNTY HEALTH SYSTEM  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION – BUDGET AND ACTUAL (ACCRUAL BASIS)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2013**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,061,795	\$ -	\$ 1,061,795	\$ 1,039,538	\$ 22,257
Estimated Other Revenues/Receipts	<u>16,209,165</u>	<u>1,058,081</u>	<u>17,267,246</u>	<u>19,077,772</u>	<u>(1,810,526)</u>
	17,270,960	1,058,081	18,329,041	20,117,310	(1,788,269)
Expenses/Disbursements	<u>16,818,979</u>	<u>2,703,376</u>	<u>19,522,355</u>	<u>18,214,743</u>	<u>(1,307,612)</u>
Net	451,981	(1,645,295)	(1,193,314)	1,902,567	(3,095,881)
Transfers	-	-	-	-	-
Balance Beginning of Year	<u>15,079,039</u>	<u>(9,462,407)</u>	<u>5,616,632</u>	<u>15,227,926</u>	<u>(9,611,294)</u>
Balance End of Year	<u>\$ 15,531,020</u>	<u>\$ (11,107,702)</u>	<u>\$ 4,423,318</u>	<u>\$ 17,130,493</u>	<u>\$ (12,707,175)</u>

**HANCOCK COUNTY HEALTH SYSTEM**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2013**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Health System preparing budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health System on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Health System did not amend its original budget during the year ended June 30, 2013.

For the year ended June 30, 2013, the Health System's expenditures did not exceed the amount budgeted.

**OTHER SUPPLEMENTARY INFORMATION**

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2013 AND 2012**

	TOTAL	
	<u>2013</u>	<u>2012</u>
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 2,228,147	\$ 2,346,641
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	1,423,779	1,360,054
Recovery Room	387,170	361,532
Radiology	4,071,624	3,608,022
Nuclear Medicine	237,565	182,829
Laboratory	5,776,233	5,534,803
Blood	82,344	84,770
Respiratory Therapy	1,464,075	554,751
Physical Therapy	910,260	727,514
Occupational Therapy	184,826	208,168
Speech Therapy	163,843	97,597
Electrocardiology	321,695	320,998
Medical and Surgical Supplies	258,962	217,993
Pharmacy	1,871,832	1,677,263
Cardiac Rehabilitation	215,349	182,115
Diabetic Education	36,090	38,332
Nail Care	19,499	18,268
Britt Clinic	1,821,353	1,628,830
Garner Clinic	2,073,174	2,311,422
Wesley Clinic	362,046	314,067
Kanawha Clinic	162,738	175,313
Emergency Services	1,962,205	1,870,321
Specialty Surgeon	169,823	122,060
Garner Rec Clinic - Physical Therapy	247,933	216,872
Home Health	288,571	-
Total	<u>26,741,136</u>	<u>24,160,535</u>
Charity Care	<u>(141,451)</u>	<u>(108,581)</u>
Patient Service Revenues	<u>26,599,685</u>	<u>24,051,954</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(5,238,469)	(5,135,493)
Medicaid	(942,666)	(692,413)
Other	(3,747,508)	(3,422,843)
Provision for Bad Debts	(1,107,137)	(1,086,250)
Total Deductions	<u>(11,035,780)</u>	<u>(10,336,999)</u>
Net Patient Service Revenues	<u>\$ 15,563,905</u>	<u>\$ 13,714,955</u>

INPATIENT		OUTPATIENT	
2013	2012	2013	2012
\$ 1,872,249	\$ 2,084,218	\$ 355,898	\$ 262,423
48,034	77,199	1,375,745	1,282,855
6,202	12,695	380,968	348,837
232,853	238,847	3,838,771	3,369,175
-	-	237,565	182,829
627,374	673,439	5,148,859	4,861,364
31,068	41,191	51,276	43,579
783,825	355,782	680,250	198,969
271,969	304,266	638,291	423,248
148,287	196,150	36,539	12,018
97,563	82,906	66,280	14,691
27,221	27,278	294,474	293,720
77,106	67,358	181,856	150,635
949,048	956,411	922,784	720,852
-	-	215,349	182,115
-	-	36,090	38,332
-	-	19,499	18,268
-	-	1,821,353	1,628,830
-	-	2,073,174	2,311,422
-	-	362,046	314,067
-	-	162,738	175,313
40,801	32,878	1,921,404	1,837,443
1,434	13,142	168,389	108,918
-	-	247,933	216,872
-	-	288,571	-
<u>\$ 5,215,034</u>	<u>\$ 5,163,760</u>	<u>\$ 21,526,102</u>	<u>\$ 18,996,775</u>

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**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OTHER OPERATING REVENUES</b>		
Meals Sold	\$ 61,719	\$ 59,617
Grant Revenues	767	49,123
Dietary Assessment and Consulting	30,037	23,690
Medical Records Transcripts	4,027	3,162
Build America Bonds Rebate Grant Revenue	399,441	593,887
Miscellaneous	<u>6,358</u>	<u>63,986</u>
Total Other Revenues	<u>\$ 502,349</u>	<u>\$ 793,465</u>

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2013 AND 2012**

	TOTAL	
	2013	2012
Employee Benefits	\$ 1,588,898	\$ 1,345,282
Administrative and General	2,095,064	2,035,379
Operation of Plant	510,343	464,677
Laundry and Linen	30,098	32,417
Housekeeping	136,092	127,464
Dietary	291,349	278,424
Nursing Administration	78,762	57,137
Central Supply	166,122	118,175
Pharmacy	361,812	405,519
Medical Records	252,751	242,637
Social Service	9,537	9,554
Adults and Pediatrics	1,539,220	1,464,421
Operating and Recovery Rooms	266,034	238,626
Anesthesiology	139,581	131,322
Radiology	741,367	685,734
Nuclear Medicine	67,528	57,353
Laboratory	598,172	580,578
Blood	31,371	28,316
Respiratory Therapy	309,916	35,022
Physical Therapy	263,341	221,368
Occupational Therapy	75,202	82,216
Speech Pathology	73,932	46,714
Electrocardiology	16,119	18,699
Cardiac Rehabilitation	46,050	47,996
Medical Supplies	153,689	146,039
Massage Therapy	-	(20)
Nail Care	22,325	41,733
Britt Clinic	1,539,038	1,177,897
Garner Clinic	1,412,591	1,408,544
Wesley Clinic	280,140	243,727
Kanawha Clinic	165,181	173,100
Emergency Services	1,249,187	1,090,923
Ambulance	40,886	8,280
Specialty Surgeon	53,680	39,902
Garner Rec Clinic - Physical Therapy	116,543	107,828
Home Health	155,436	-
Depreciation	1,616,097	1,018,395
Interest Expense and Amortization	325,525	62,324
<b>TOTAL</b>	<b>\$ 16,818,979</b>	<b>\$ 14,273,702</b>

SALARIES		OTHER	
2013	2012	2013	2012
\$ -	\$ -	\$ 1,588,898	\$ 1,345,282
649,289	594,882	1,445,775	1,440,497
249,178	230,937	261,165	233,740
7,128	7,277	22,970	25,140
107,376	96,429	28,716	31,035
211,682	210,608	79,667	67,816
78,451	56,473	311	664
86,809	81,485	79,313	36,690
6,301	5,674	355,511	399,845
218,244	205,411	34,507	37,226
9,537	9,554	-	-
1,538,222	1,463,465	998	956
99,118	77,533	166,916	161,093
-	-	139,581	131,322
230,162	245,694	511,205	440,040
-	-	67,528	57,353
277,444	275,698	320,728	304,880
1,488	1,999	29,883	26,317
-	-	309,916	35,022
235,170	196,700	28,171	24,668
341	891	74,861	81,325
-	-	73,932	46,714
4,728	5,581	11,391	13,118
43,373	42,715	2,677	5,281
-	-	153,689	146,039
-	(20)	-	-
15,134	16,274	7,191	25,459
815,228	677,015	723,810	500,882
560,256	580,664	852,335	827,880
102,748	87,296	177,392	156,431
98,495	108,980	66,686	64,120
265,773	208,807	983,414	882,116
-	-	40,886	8,280
-	-	53,680	39,902
59,240	52,867	57,303	54,961
128,414	-	27,022	-
-	-	1,616,097	1,018,395
-	-	325,525	62,324
<u>\$ 6,099,329</u>	<u>\$ 5,540,889</u>	<u>\$ 10,719,650</u>	<u>\$ 8,732,813</u>

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF PATIENT RECEIVABLES,  
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

<b>Analysis of Aging</b>	<u>2013</u>		<u>2012</u>	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 Days or Less	\$ 2,272,777	63%	\$ 1,809,805	61%
31 to 60 Days	446,608	12%	341,298	11%
61 to 90 Days	318,150	9%	205,705	7%
91 Days and Over	581,721	16%	611,427	21%
	<u>3,619,256</u>	<u>100%</u>	<u>2,968,235</u>	<u>100%</u>
Less: Allowance for Doubtful Accounts	424,625		358,245	
Allowance for Contractual Adjustments	<u>1,309,954</u>		<u>1,080,775</u>	
Net	<u>\$ 1,884,677</u>		<u>\$ 1,529,215</u>	

**Analysis of Allowance for Doubtful Accounts  
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 358,245	\$ 331,000
Add:		
Provision for Bad Debts	1,107,137	1,086,250
Recoveries Previously Written Off	<u>156,388</u>	<u>102,863</u>
	1,263,525	1,189,113
Less:		
Accounts Written Off	<u>(1,197,145)</u>	<u>(1,161,868)</u>
Ending Balance	<u>\$ 424,625</u>	<u>\$ 358,245</u>

**Collection Statistics**

Net Accounts Receivable - Patients	\$ 1,884,677
Number of Days Charges Outstanding	44
Uncollectible Accounts (1)	\$ 1,248,588
Percentage of Uncollectible Accounts to Total Charges	4.7%

(1) Includes Provision for Bad Debts, Charity Care, and Collection Fees.

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
JUNE 30, 2013 AND 2012**

	2013	2012
<b>INVENTORIES</b>		
General	\$ 54,475	\$ 49,029
Pharmacy	111,864	32,997
Central Supply	70,849	67,057
 Total Inventories	 \$ 237,188	 \$ 149,083
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 11,613	\$ 10,323
Service Contracts/Other	61,289	70,985
Membership Dues	21,303	17,775
 Total Prepaid Expenses	 \$ 94,205	 \$ 99,083

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)  
JUNE 30, 2013 AND 2012**

	2013	2012
<b>Patient Days</b>		
Acute (includes Hospice)	918	1,009
Swing-Bed*	1,661	2,245
Total	2,579	3,254
 <b>Admissions</b>		
Acute (includes Hospice)	310	366
Swing-Bed*	150	181
Total	460	547
 <b>Discharges</b>		
Acute (includes Hospice)	303	366
Swing-Bed*	153	179
Total	456	545
 <b>Average Length of Stay</b>		
Acute (includes Hospice)	3	3
Swing-Bed*	11	12
All Patients	6	6
 Beds	 25	 25
 <b>Percentage of Occupancy</b>		
Acute (includes Hospice), based on 15 beds	16.8%	18.4%
Swing-bed, based on 10 beds	45.5%	65.5%
All Patients, based on 25 beds	28.3%	37.6%
 Outpatient Visits	 18,309	 18,092
 <b>Physician Clinic Visits</b>		
Britt	10,143	9,601
Garner	7,735	9,903
Kanawha	975	1,087
Wesley	2,114	1,858
Total	20,967	22,449

\* Includes swing-bed and swing-bed self-pay patients



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Hancock County Health System  
Britt, Iowa

We have audited the financial statements of Hancock County Health System as of and for the year ended June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and have issued our report thereon dated November 11, 2013. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees  
Hancock County Health System

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of Hancock County Health System are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health System's operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
November 11, 2013

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

**Part I: Findings Related to the Financial Statements:**

**NONE IDENTIFIED**

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-13     **Certified Budget** – Disbursements during the year ended June 30, 2013, exceeded budgeted expenditure amounts on a cash basis. However, the expenditures resulting in the excess were related to a significant construction project. In the absence of these capital expenditures, the Health System did not exceed the amount budgeted for their ongoing operations.
- Recommendation** – It is recommended that the Health System take into consideration their budgeted capital expenditures when preparing their budget, which is measured on the cash basis in accordance with the Code of Iowa.
- Response** – We will consider budgeted capital expenditures when preparing our annual budget.
- Conclusion** – Response accepted
- II-B-13     **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13     **Travel Expense** – No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-13     **Business Transactions** – We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-13     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-13     **Deposits and Investments** – The Health System did not exceed limits within its depository resolution during the year ended June 30, 2013.
- II-G-13     **Publication of Bills Allowed and Salaries** – Chapter 347.13(11) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health System published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.